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To: Governor's Advisory Council on School Funding

From: Amy Carlson
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RE: Distribution of HB 124 Block Grants to schools

HB 124 establishes block grants to school districts to replace revenue lost as a result of tax reductions enacted in the 1999 regular session and HB 124 of the 2001 session. Approximately \$70 million will be distributed to schools either directly to the district or through the countywide school funds. Of that \$70 million, approximately \$43.6 million will be distributed to school district general fund budgets. The block grants will comprise approximately 14% of the state contribution to schools (\$70/500 million), a significant amount of revenue to schools.

The block grants are distributed to districts in direct proportion to the revenue lost in FY2001. There was no attempt to use the block grants to equalize school revenues or to account for long-term changes in the tax bases of districts. The legislature recognized these concerns and included a requirement in HB 124 that the school funding study address these issues.

Revenues replaced by Block Grants

HB 124 eliminates the school districts from the distribution of motor vehicles, financial corporations, and other minor non-levy revenue sources. As shown in Table 1, the district general funds will receive approximately \$21.6 million less from motor vehicle revenue, and about \$2.7 million less in other non-levy revenue (NLR) sources.

HB124 Block Grants

Table 1

Fund	SB184 reimbursements in FY2001	Motor Vehicles FY2001	Other NLR FY2001	Total	Block Grant = Total + 0.76%
School district General fund	\$19.0	\$21.6	\$2.7	\$43.3	\$43.6
School district all other funds	5.0	7.0	1.2	13.2	13.3
County Retirement	5.0	5.3	0.6	10.9	11.0
County Transportation	0.9	0.8	0.1	1.8	1.8
Total	\$29.9	\$34.7	\$4.6	\$69.2	\$69.7

Several bills enacted in the 1999 session reduced the taxable value of property within the state. SB 184 created a mechanism for reimbursing local governments, including school districts revenue lost from House Bill No. 128 (telecommunications), House Bill No. 174 (electrical generation), House Bill No. 420 (metal mines), House Bill No. 658 (oil and gas), Senate Bill No. 200 (business equipment), and Senate Bill No. 530 (oil and gas). As shown in Table 1, the 2001 SB184 reimbursement to schools is \$30 million of the \$70 million contained in the block grants. \$19 million of the \$30 million goes to district general fund budgets, which is about 4.5% of the total state contribution for entitlements.

What is the concern with retaining block grants?

The Block grants, as currently established, are a very effective means of maintaining the status quo. School districts are held harmless from the reduction of the taxable value of certain property types. Yet, two concerns arise:

- 1) Property is not static. The property value may leave a district, yet the reimbursements for that property will not decrease. New property may be added to another district and no additional reimbursement will be allocated to that district. The distribution of property changes slowly, so over time the distortion becomes a bigger issue than it is currently. The value of property can also vary significantly, particularly in the case of oil and gas where market values can change quickly. However, the reimbursement is set for a point in time.
- 2) The method of distribution of state resources is not done with the equity of school funding as a consideration.

The Table 2 on the following page summarizes the equity concern in the district general fund budgets, which receive \$43.6 of the \$70 million in block grants.

Anticipated Distribution of HB 124 Block Grants

Table 2

Percentile range	Elementary District		High School District	
	Average TV/ANB	Average block grant/ANB	Average TV/ANB	Average block grant/ANB
zero to 10	5,867	114	11,376	109
10 to 20	10,277	249	21,372	202
20 to 30	13,255	262	24,250	296
30 to 40	15,907	280	28,766	291
40 to 50	20,176	309	33,846	311
50 to 60	25,663	412	40,331	464
60 to 70	33,686	508	46,895	415
70 to 80	50,523	499	58,939	678
80 to 90	80,374	515	76,944	533
90 to 100	251,084	722	123,135	701

Table 2 is broken into 10 percentile ranges of districts there are 337 elementary or combined districts so there approximately 34 districts in each percentile group. Likewise, there are 165 high school or combined districts and 16 to 17 districts in each 10-percentile group. The percentile range is a ranking of taxable values per ANB. Districts are sorted from lowest to highest taxable values (TV) per average number belonging (ANB). The first (or smallest TV/ANB) ten percent of the districts are averaged for the average TV/ANB and block grant/ANB. For example, the 34 elementary districts in the first 10-percentile have taxable values ranging from \$134 per ANB to \$8,764 per ANB with an average of \$5,867. This first percentile group has an average block grant of \$114 per ANB. The highest elementary percentile group has an average taxable value of \$251,084 per ANB and a block grant of \$722 per ANB.

Table 2 demonstrates that the average reimbursement increases as the average taxable value per student increases. The districts disadvantaged by low taxable values are further disadvantaged by smaller reimbursements.

Within the range of districts that receive Guaranteed Tax Base (GTB) aid, GTB partially offsets this effect. When a district receives a higher level of non-levy revenue the amount of the district general fund budget that is eligible for GTB aid is reduced by the same amount and the district will qualify for less GTB aid. Districts that receive less non-levy revenue have a larger portion of their budget eligible for GTB aid and receive more state revenue as a result. 64% of elementary districts and 88% of high school districts receive GTB aid.

Other school funds such as the countywide retirement and transportation funds and all other school district levies would have similar disparities in the distribution of funds

although probably not as dramatic due to the automatic equalization that occurs when you combine districts of varying tax wealth within a county.

Why must the state maintain a higher standard of equity for school funding than for other local government?

The state's obligation to provide fair and equitable funding of schools is different than its responsibility to other local government units. The constitution clearly provides not only a link between schools and the state, but also a financial obligation of the state to provide funding and distribute it fairly. Distributions of funds to cities and counties on the other hand, do not necessarily implicate the same type of concerns because cities and counties do not have a similar constitutional relationship to the state. While the state may be interested in helping local governments provide parks, roads, police, water, and sewer services, any state funding provided for these services, does not involve the same constitutional guarantee or level of scrutiny.

The Loble decision explains that state funding for education needs to be based on educationally relevant decisions and equity in the distribution of all funds. The state must insure that equal educational opportunities are provided. Equity does not mean the same state funding for each student, but equal access to funding, state, local, and possibly federal, combined.

Implications for the school funding study

A school finance system which funds high wealth districts more than low wealth districts as shown in Table 2, obviously creates issues in terms of equal access to funding. When the state contributes more to education in districts with high taxable values than it does to districts of low taxable values, the state is arguably contributing to disparities in the funds available to educate children.

Currently HB124 reimbursements are probably more appropriately characterized as local tax reimbursement and not school funding. However, as tax bases and wealth of districts change, the connection between the initial tax loss in 1999 and 2001 and the ongoing block grants lessens. The block grants will become just another calculation in the state school funding formula. As part of school funding, the block grants will raise equity issues as outlined in Table 2. When that disconnection to tax reimbursement occurs, the state may need new ways to distribute the revenue presently contained in the block grants.

HB124 directive to Advisory committee

The legislature recognized that the block grants may not be appropriate in the long – term and provided the language below in HB124 for this council address the long-term allocation of these resources.

HB 124, Section 252. Coordination with school funding study.

If an interim study of school funding is conducted during the interim commencing July 1, 2001, the study must include recommendations for retaining or repealing the block grants provided for in [sections 244 through 246].

Conclusion:

HB 124 block grants are a good short-term means of distributing replacement revenue for lost tax base. In the long-term these payments become questionable. New methods should be investigated for distribution of these funds.

Future research options:

A study could be done on the tax base of districts of the types of property addressed in HB 124, and how much those the areas of tax base change over time. It could be estimated how quickly the reimbursements to districts lose the connection to the original loss in taxable value.

Questions:

Does the council wish to pursue the analysis cited above or would the council prefer to move forward on this issue without further research?

Should the distribution continue to reflect replacement of taxable value even after the taxable value relationships have changed?

Does the committee want to investigate ways that this revenue can be distributed to districts in a manner that is consistent with school equity?